

IN THE SUPERIOR COURT FOR THE STATE OF ALASKA
THIRD JUDICIAL DISTRICT AT ANCHORAGE

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UNION OIL COMPANY OF CALIFORNIA,

Plaintiff,

v.

FOREST OIL CORPORATION,

Defendant.

Clerk of the Trial Courts

Case No. 3AN-10-

12466
CI

COMPLAINT

COMES NOW plaintiff Union Oil Company of California, and for its Complaint against Forest Oil Corporation alleges as follows:

1. Union Oil Company of California ("Union") is a California corporation doing business in the State of Alaska. Union has obtained a valid certificate of authority to transact business in the State of Alaska, has paid its biennial corporation tax last due, has filed its biennial report for the last reporting period, and is in every other respect qualified to bring this action.

2. Upon information and belief, Defendant Forest Oil Corporation ("Forest") is a New York corporation doing business in the State of Alaska, and holding a certificate of authority to transact business in the State of Alaska.

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3. Forest is obligated to pay to Union a share of the costs related to the operation of the Trading Bay Unit ("TBU") and Trading Bay Field ("TBF"), located in Cook Inlet, Alaska. The amount in dispute is greater than \$100,000, exclusive of costs, interest and attorney fees.

4. The Superior Court has jurisdiction over this matter pursuant to AS 22.10.020(a).

5. Venue is proper in this Court under Alaska Rule of Civil Procedure 3 and AS 22.10.030.

FACTS

6. This case involves responsibility for the costs arising out of the ongoing operations of the offshore and onshore oil and gas facilities operated as part of the TBU and TBF, Cook Inlet, Alaska.

7. The Trading Bay Production Facility ("TBPF") is operated as part of the TBU and TBF.

8. Pursuant to agreements among the interest owners, Union is the operator of all the oil and gas facilities operated as part of the TBU and TBF, including the TBPF.

9. The facilities operated as part of the TBU are operated by Union pursuant to the leases between the State of Alaska ("State") as lessor and Union and

the other owners of the TBU as lessees, the Trading Bay Unit Agreement ("TBUA") (an agreement between the owners of the TBU and the State), and the Trading Bay Unit Operating Agreement ("TBUOA") (an agreement among the owners of the TBU).

10. The facilities operated as part of the TBF are operated by Union pursuant to a lease between the State as lessor and Union and the other owners of the TBF as lessees, and the Trading Bay Field Joint Operating Agreement ("TBFJOA"), an agreement among the owners of the TBF.

11. Under the TBUA, TBUOA and TBFJOA, the costs related to the operation of the TBU and TBF, including the TBPF, are shared by the owners of the TBU and TBF in the manner provided in the agreements. Under the agreements, as operator Union can either, at its election, (i) initially incur costs related to the operation of the TBU and TBF, including the TBPF, or (ii) require the party(ies) to advance their respective share(s) of estimated costs related to the operation of the TBU and TBF, including the TBPF. Union, as operator, then issues invoices to the remaining owner(s) for their proportionate share of such costs, crediting any advanced payments as appropriate. The remaining owner(s) pay for their share of the outstanding costs by remitting payment to Union as provided in the agreements.

12. At the time Union became operator, Marathon Oil Company ("Marathon") owned the remaining interest in the TBU and TBF, including the TBPF.

13. Subsequently, Marathon assigned the portion of its interests in the TBU and TBF, including the TBPF, related to oil to Forcenergy Inc. ("Forcenergy").

14. As part of the assignment, Forcenergy assumed the portion of Marathon's obligations under the TBUA, TBUOA and TBFJOA related to oil, and became responsible for a proportionate share of the operating costs of the TBU and TBF, including the TBPF.

15. Forcenergy subsequently was acquired by Forest through merger. By virtue of its merger with Forcenergy, Forest assumed Forcenergy's obligations under the TBUA, TBUOA and TBFJOA and became responsible for a proportionate share of the operating costs of the TBU and TBF, including the TBPF.

16. In addition to the TBUA, TBUOA and the TBFJOA, Union and Forest also entered an Alignment Agreement governing their interests in and operation of the TBU and TBF, including the TBPF. Together, the TBUA, TBUOA, TBFJOA and the Alignment Agreement are referred to as the "Trading Bay Agreements."

17. Forest subsequently assigned its ownership interests in the TBU and TBF, including the TBPF, to an affiliate, Forest Alaska Holding LLC ("FAH"), which in turn assigned the ownership interests in the TBU and TBF, including the TBPF, to

another affiliate, Forest Alaska Operating LLC ("FAO"). FAH retained a one-hundred percent (100%) ownership interest in FAO.

18. In 2007, FAH and Forest entered into a Membership Interest Purchase Agreement ("MIPA") with Pacific Energy Resources Ltd. Pursuant to the MIPA, FAH transferred its entire interest in FAO to Pacific Energy Alaska Holdings, LLC. FAO was subsequently renamed Pacific Energy Alaska Operating LLC ("PEAO").

19. Forest did not obtain the release by Union of Forest's obligations under the Trading Bay Agreements at the time the interests owned by Forest in the TBU and TBF, including the TBPF, were transferred to its affiliates, or at any time thereafter.

20. Subsequent to acquiring its interests in the TBU and TBF, including the TBPF, PEAO filed for bankruptcy. As part of the bankruptcy proceedings, PEAO abandoned its interests in the TBU and TBF, including the TBPF, and rejected its obligations under the Trading Bay Agreements.

21. Prior to filing for bankruptcy, PEAO had failed to make all of the payments to Union required by the Trading Bay Agreements for costs related to the operation of the TBU and TBF, including the TBPF.

22. Subsequent to filing for bankruptcy, PEAO has continued to fail to make the payments to Union required by the Trading Bay Agreements for costs related to the operation of the TBU and TBF, including the TBPF.

23. As operator of the TBU, TBF and TBPF, Union has a first and prior lien upon, among other things, each owner's share of production from the TBU and TBF to secure the payment of the amount of the expense charged to and assessed against such owner, and upon default by an owner in the payment of its share of such expenses, to collect from the purchaser of such defaulting owner's production the proceeds from the sale of such production.

24. Pursuant to these rights, from October 24, 2008 through March 9, 2009, Union collected from the purchaser thereof, the proceeds from the sale of the share of production in the TBU and TBF attributable to the ownership interest formerly owned by Forest and subsequently conveyed to PEAO. For the period from March 10, 2009 through September 1, 2009, such proceeds were paid into escrow and are the subject of a pending action in the Bankruptcy Court. Subsequent to the Bankruptcy Court's approval on September 2, 2009 of PEAO's motion to abandon its TBU and TBF assets and reject the Trading Bay Agreements, Union has been exercising its lien rights at the wellhead, and applying the net proceeds to PEAO's past due balance.

25. Such proceeds, however, have been insufficient to satisfy the obligations assessed and charged under the Trading Bay Agreements to the interest in the TBU and TBF formerly owned by Forest.

26. By letter dated May 29, 2009, Union advised Forest of PEOA's failure to remain current on its obligations under the Trading Bay Agreements and of the bankruptcy petition covering PEOA.

27. The letter stated that the purpose was to advise Forest that Union, as operator of and a co-working interest owner in the TBU, the TBF and the TBPF, would look to Forest to fulfill PEOA's obligations in the event and to the extent PEOA failed to perform or rejected them.

28. By letter dated June 19, 2009, Forest rejected any responsibility for fulfilling PEOA's obligations in the event and to the extent that PEOA failed to perform them.

29. Since that time, Union has continued to make efforts to recover from PEOA the full amount due under the Trading Bay Agreements, but without success.

30. As of November 1, 2010, the proportionate share of the operating costs related to the ongoing operation of the TBU and TBF, including the TBPF, which is chargeable under the Trading Bay Agreements to the ownership interest formerly owned by Forest and its affiliates, and which has not been paid by PEOA or otherwise satisfied by the sale of production attributable to that ownership interest, is \$62,035,375.14.

PLAINTIFF'S CLAIM

31. Plaintiff incorporates by reference paragraphs 1 to 30 as if fully set forth herein.

32. By failing to make payment of the amounts due under the Trading Bay Agreements when due, abandoning the TBU, TBF, and TBPF assets, and rejecting the Trading Bay Agreements, PEO has defaulted on its obligations to Union under those contracts.

33. Under the Trading Bay Agreements, Forest agreed to be responsible for the proportionate share of the costs of operation of the TBU and TBF, including the TBPF, as provided in the agreements.

34. Despite the subsequent transfer of Forest's interest in the TBU and TBF, including the TBPF, to affiliates and to PEO, Forest remains obligated under the Trading Bay Agreements, as surety or otherwise, to pay the proportionate share of the costs related to the ongoing operation of the TBU and TBF, including the TBPF, which is chargeable under the Trading Bay Agreements to the ownership interest formerly owned by Forest, and which has not been paid by or otherwise satisfied by PEO.

35. As of November 1, 2010, the proportionate share of the costs related to the ongoing operation of the TBU and TBF, including the TBPF, which is chargeable

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under the Trading Bay Agreements to the ownership interest formerly owned by Forest and which has not been paid by or otherwise satisfied by PEO is \$62,035,375.14.

36. Forest's refusal to pay Union the amount which is chargeable under the Trading Bay Agreements to the ownership interest formerly owned by Forest and which has not been paid by or otherwise satisfied by PEO (i) breaches Forest's duties as a surety for PEO, and (ii) breaches Forest's contractual obligations to Union under the Trading Bay Agreements.

37. Through November 1, 2010, Forest's breaches have resulted in damages to Union in the amount of \$62,035,375.14.

38. Wherefore, as of November 1, 2010, Forest is liable to Union for the outstanding balance of the amount due Union of \$62,035,375.14.

PRAYER FOR RELIEF


WHEREFORE, Plaintiff respectfully requests that the Court enter judgment against Forest as follows:

1. Awarding Union the amount due Union of \$62,035,375.14, plus such additional amounts which may be due at the time of judgment, as Union may prove at trial;

2. Awarding Union prejudgment interest accrued to the date of entry of judgment;
3. Awarding Union its attorneys' fees and costs; and
4. Granting such other and further relief as the Court may determine to be equitable and just.

DATED: December 2, 2010.

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